SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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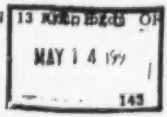
Q 35740

FORM 10-Q

D 92-2258 KD

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934



For the quarterly period ended March 31, 1992

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 0-19649

Checkers Drive-In Restaurants, Inc.
(Exact name of Registrant as specified in its charter)

Delaware	58-1654960
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification no.)

PROCESSED BY
MAY 15 1992
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Q-Data Corp. - St. Petersburg, FL

First Florida Bank Building 600 Cleveland Street, Suite 1050 Clearwater, Florida	1-1079
(Address of principal executive offices)	Zip code)

L32

Registrant's telephone number, including area code: (813) 441-3500

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

The Registrant had 13,595,955 shares of Common Stock, par value $.001 per share, outstanding as of May 11, 1992.

This document, including exhibits, contains 16 pages. The exhibit index is located on page 10.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

The information required by this Item is incorporated by reference to the Consolidated Balance Sheets of the Checkers Drive-In Restaurants, Inc. (the "Company") and subsidiaries as of March 31, 1992 (unaudited) and December 31, 1991, the unaudited Consolidated Statements of Operations of the Company and subsidiaries for the three month periods ended March 31, 1992 and 1991, the unaudited Consolidated Statements of Cash Flows for the three months ended March 31, 1992 and 1991 of the Company and its subsidiaries and the accompanying notes thereto filed with this Report as Exhibit 28.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction

As of March 31, 1992, the Company had an ownership interest in 54 Company-operated Restaurants and an additional 84 Restaurants were operated by franchisees. The Company's ownership interest in the Company-operated Restaurants is in one of two forms: (i) the Company owns 100% of the Restaurant and operates the Restaurant (as of March 31, 1992, there were 48 such Restaurants) and (ii) the Company owns 50% or 75% of the Restaurant (a "Joint Venture Restaurant") and is responsible for operating the Joint Venture Restaurant while the remaining 50% or 25% is owned by a joint venture partner (as of March 31, 1992, there were six such Joint Venture Restaurants).

The consolidated financial statements of the Company include the accounts of the Joint Venture Restaurants and Champion Modular Restaurant Company, Inc. ("Champion"). Champion began operations on May 7, 1990 and was acquired by the Company in November 1991 in a transaction accounted for by combining the historical amounts of the Company and Champion (similar to a pooling of interests).

The Company receives revenues from Restaurant sales, franchise fees, royalties and sales of a fully-equipped manufactured modular restaurant building ("Modular Restaurant Packages"). Cost of Restaurant sales relates to food and paper costs, labor and all other Restaurant costs for Company-operated Restaurants. Cost of Modular Restaurant Packages relates to all materials, labor and other direct and indirect costs of production. Other expenses, such as depreciation and amortization, and general and administrative expenses, relate both to Company-operated Restaurant operations and Modular Restaurant Package revenues as well as the Company's franchise sales and support functions. The Company's revenues and expenses are affected by the number and timing of additional Restaurant openings and the sales volumes of both existing and new Restaurants. Modular Restaurant Package revenues are directly affected by the number of new franchised Restaurant openings and the number of Modular Restaurant Packages produced for those openings.

The Modular Restaurant Packages are comprised of two major components, building and equipment. These components are accounted for separately and, in instances where the building portion is not purchased from Champion, the equipment portion of the Modular Restaurant Package is sold separately. The equivalent number of Modular Restaurant Packages completed is determined in accordance with the percentage of completion accounting method.

On November 22, 1991, the Company completed the initial public offering of 3,622,500 shares of its Common Stock at $10.67 per share (the "IPO"), 2,857,500 shares of which were sold by the Company and 765,000 shares of which were sold by certain Selling Stockholders. Net proceeds to the Company from the sale of the

shares of Common Stock in the IPO were approximately $28,346,400 after deduction of offering expenses and underwriting discounts and commissions payable by the Company. Net proceeds from the IPO have been used by the Company for retirement of debt, the acquisition of Champion's manufacturing plant, and the addition of Restaurants. The remainder of the IPO net proceeds will be used in the future for opening additional Restaurants.

All share and per share information presented herein and in the Company's consolidated financial statements have been retroactively restated to reflect the three for two stock split of the Company Common Stock paid in the form of a stock dividend paid on February 20, 1992 to stockholders of record on February 3, 1992 (the "Stock Split").

Results of Operations

The following table sets forth the percentage relationship to total revenues of the listed items included in the Company's consolidated statements of operations. Certain items are shown as a percentage of Restaurant sales and Modular Restaurant Package revenue. The table also sets forth certain selected Restaurant operating data.

	Three Months Ended March 31,	
	1991	1992
Revenues:		
Restaurant sales	74.8%	75.1%
Royalties	4.0	4.9
Franchise fees	3.0	2.1
Modular Restaurant Packages	18.2	18.0
	100.0%	100.0%
Cost and expenses:		
Cost of revenues —		
Restaurant sales(1)	77.4%	73.9%
Modular restaurant packages(2)	86.3	81.2
Depreciation and amortization	2.4	2.6
Selling, general and administrative expenses	11.5	9.4
Operating income	12.4	18.0
Interest expense (income), net	2.0	(1.2)
Minority interests in earnings	0.8	0.6
Earnings before income tax	9.6	18.6
Income tax expense	3.2	6.6
Net earnings	6.4%	12.0%
Pro forma net earnings (3)	6.0%	12.0%
Operating Data:		
System-wide Restaurant sales (in 000's)		
Company-operated	$ 5,699	$12,407
Franchised	7,708	20,064
Total	$13,407	$32,471
Average annual sales per Restaurant open for a full year (in 000's)(4)		
Company-operated	$ 853	$ 868
Franchised	865	970
System-wide	858	919
Number of Restaurants(5)		
Company-operated	26	54
Franchised	39	84
Total	65	138

(1) As a percent of Restaurant sales

(2) As a percent of Modular Restaurant Package revenues

(3) Adjusted to reflect income tax expense as if Champion were not an S Corporation from inception (May 1990) through acquisition (November 1991). Financial data for all other periods are actual

(4) Includes sales for Restaurants open for entire trailing twelve month period

(5) Number of Restaurants open at end of period

Comparison of Historical Results - Three Months Ended March 31, 1992 and 1991

Revenues. Total revenues increased 117% to $16,529,298 for the first three months of 1992 compared to $7,610,114 for the same period in 1991. Company-operated Restaurant sales increased 118%. The increase resulted from opening or acquiring 28 Company-operated Restaurants since April 1, 1991, along with average sales increases in existing Company-operated Restaurants. Approximate average sales per Company-operated Restaurant open for the three month period ended March 31, 1992 increased approximately 25% as compared to average sales per Company-operated Restaurant for the corresponding period in 1991. Comparable Company-operated Restaurant sales for the three month period ended March 31, 1992 increased approximately 9.5% relative to the corresponding period in 1991. This increase in comparable sales represented approximately 8.1% of the increase in Restaurant sales and was primarily attributable to increased customer counts.

Royalties increased 162% to $795,146 for the first three months of 1992 from $303,39o for the first three months of 1991 due primarily to a 160% increase in franchised Restaurant sales. This increase resulted from adding 45 franchised Restaurants combined with average sales increases in existing franchised Restaurants. Approximate average sales per franchised Restaurant open for the three month period ended March 31, 1992 increased approximately 15.3% as compared to the corresponding period in 1991. Comparable franchised Restaurant sales for the three month period ended March 31, 1992 increased approximately 1.3% relative to the corresponding period in 1991. This increase in comparable sales represented approximately 0.6% of the increase in royalties.

Franchise fees increased 53.3% to $345,000 for the first three months of 1992 from $225,000 for the first three months of 1991. This was a direct result of opening 14 franchised Restaurants during the period ended March 31, 1992 as compared to opening nine franchised Restaurants for the corresponding three month period in 1991. The Company recognizes franchise fees as revenues when the Company has substantially completed its obligations under the franchise agreement, usually upon or just prior to opening of the franchised Restaurant.

Modular Restaurant Package revenues increased 116% to $2,982,118 for the first three months of 1992 compared to $1,382,754 for the same period in 1991 due to increased sales volume of Modular Restaurant Packages to the Company's franchisees (12.1 in the 1992 period versus 6.6 in the 1991 period). The Company does not recognize revenues from the production of Modular Restaurant Packages for Company-operated Restaurants.

Costs and expenses. Total costs of Restaurant sales consists of all Restaurant level operating expenses such as food, paper, labor, promotions, supplies, utilities, rent and other costs. These expenses totalled $9,165,263 or 73.9% of Restaurant sales for the first three months of 1992 compared to $4,411,437 or 77.4% of Restaurant sales for the first three months of 1991. Food and paper costs of all Company-operated Restaurants decreased to 36.2% of Restaurant sales for the first three months of 1992 compared to 39.7% for the first three months of 1991. The improvement in food and paper costs as a percentage of Restaurant sales was due primarily to the Company's increase in total volume resulting in more favorable purchasing agreements with vendors and to management's efforts to control waste and shrinkage in the Restaurants. Promotional expenses increased to 2.0% of Restaurant sales for the first three months of 1992 from 0.7% for the first three months of 1991 due to management's decision to increase couponing. Restaurant labor costs include salaries and wages for Restaurant managers and other Restaurant employees. Other Restaurant employee labor was 15.4% of Restaurant sales for the first three months of 1992 and 15.7% for the first three months of 1991. Restaurant management labor was 6.9% of Restaurant sales for the first three months of 1992 and 7.5% for the first three months of 1991. The Company experienced an increase in the

federal minimum wage to $4.25 per hour in April 1991 which management estimates immediately increased other Restaurant employee labor by 0.6% of Restaurant sales.

Costs of Modular Restaurant Package revenues totalled $2,421,787 or 81.2% of Modular Restaurant Package revenues for the first three months of 1992 compared to $1,193,084 or 86.3% of such revenues for the comparable period in 1991. The decrease was attributable to greater sales volume in 1992.

Selling, general and administrative expenses increased $672,162 or 76.7% to $1,548,479 for the first three months of 1992 from $876,317 for the first three months of 1991. However, as a percentage of revenues, these expenses decreased to 9.4% of total revenues for the first three months of 1992 from 11.5% of revenues for the first three months of 1991. This decrease was due to the rapid increase in revenues and a more moderate increase in selling, general and administrative expenses, which in many instances were fixed.

Operating income. Operating income increased 214% to $2,971,944 for the first three months of 1992 from $945,488 for the first three months of 1991. This resulted from the strong growth in revenues and the improvement in operating expenses as discussed above.

Interest expense (income), net. Interest income, net of interest expense, was $209,278 for the first three months of 1992 as compared to interest expense, net of interest income, of $155,623 for the first three months of 1991. This net decrease was attributable primarily to interest income of $215,000 related to investments from the IPO proceeds and a reduction in interest expense due to the retirement of debt since the completion of the IPO.

Minority interests in earnings. This represents the portion of earnings before minority interests and income taxes attributable to the ownership interests of the joint venture partners in the Joint Venture Restaurants. These interests totalled $104,281 or 0.6% of revenues for the first three months of 1992 and $57,287 or 0.8% of revenues for the same period in 1991.

Income tax expense. Income tax expense increased 347% to $1,094,000 for the first three months of 1992 from $245,000 for the first three months of 1991. The effective tax rate of 36% in 1992 as compared to 33% in 1991 was primarily due to the increase in income in 1992 and a lower effective tax rate in 1991 due to the S Corporation status of Champion prior to its acquisition by the Company in 1991. The increase in the effective tax rate was partially offset by tax exempt income in 1992. Champion's S Corporation election terminated upon the combination of Champion with the Company.

Net earnings. Net earnings increased 307% to $1,982,941 for the first three months of 1992 from $487,578 for the same period in 1991.

Liquidity and Capital Resources

The Company requires capital principally for the development of new Company-operated Restaurants. Capital expenditures totalled $5,823,000 and $463,000 in the three months ended March 31, 1992 and 1991, respectively. During these same periods, the Company opened eight and zero Company-operated Restaurants, respectively. Prior to the IPO, the Company had funded these capital expenditures with cash from operations, bank and stockholder financing and the use of capital and operating leases. Generally, the Company has leased most of its Restaurant properties in the past. Of the 54 Restaurants which are operated by the Company as of March 31, 1992, the Company held ground leases for 41 Restaurants and owned the land for 13 Restaurants.

The Company expects to open 35 Company-operated Restaurants and 66 franchised Restaurants in 1992 and 50 Company-operated Restaurants and 75 franchised Restaurants in 1993. The number of Company-operated Restaurants expected to be opened in 1992 represents an increase of 75% in the number of Company-operated Restaurants initially planned at the time of the IPO. The Company's existing franchisees are required by their Franchise Agreements to open 306 Restaurants by 1996. The Company believes that the Company-operated Restaurants currently expected to open in 1992 and 1993 will require approximately $19,600,000 (including land) and $28,000,000 (including land), respectively, in capital expenditures. The Company also expects that all other capital expenditures for 1992 (excluding the purchase of Champion's manufacturing facility for approximately $650,000 in January, 1992) will total less than $2,500,000.

On April 30, 1992, the Company filed a Registration Statement with the Securities and Exchange Commission covering the proposed sale of 3,000,000 shares of its Common Stock, 1,500,000 shares of which will be offered by the Company and 1,500,000 shares of which will be offered by certain selling stockholders of the Company. If the offering is successful, the Company anticipates that the net proceeds to the Company from the offering, the remaining proceeds from the IPO and cash flow from operations will provide adequate funds for the planned development of Company-operated Restaurants in 1992 and 1993.

Impact of Inflation

The Company does not believe inflation has had a material impact on earnings during the past three years. Substantial increases in costs could have a significant impact on the Company and the industry. If operating expenses increase, management believes it can recover increased costs by increasing prices to the extent deemed advisable considering competition.

Seasonality

The Restaurants located in Florida, which perform well in winter due to tourists and seasonal visitors, help offset the normal industry-wide December through February volume decreases in Restaurants outside Florida. The Company does not expect seasonality to materially affect its operations.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On November 12, 1991, the wife of a former stockholder of the Company, as Trustee of the Estate of Derek V. Robin (her minor son) (the "Trustee"), made a claim (the "Claim") against the Company for the reissuance by the Company of 3,000 shares of a predecessor of the Company, Checkers Drive-In Restaurants of North America, Inc. ("Checkers Nevada") Common Stock (the equivalent of approximately 1,182,450 shares of the Common Stock of the Company). The Claim arose out of an alleged improper purchase of such shares by the Company from her husband Roland L. Robin, as Custodian for Derek V. Robin, a minor, on April 19, 1988 for a purchase price of $25,000. Mr. Roland Robin was a former officer and director of the Company. The Claim alleged that the shares were legally owned by the Trustee and that the transfer by Mr. Robin to the Company was void because he had no authority to make such transfer on behalf of the trust. On November 22, 1991 the Company entered into an Indemnification Agreement with James E. Mattei, Mark B. Reed, Jared D. Brown, Robert G. Brown, Herbert G. Brown, Diane Fontenot-Brown, George W. Cook, Donna Brown-McMullen and J. Scott Mattei (the "Indemnitors"), the principal stockholders of Checkers Nevada at the time of such stock purchase. Pursuant to the Indemnification Agreement, the Indemnitors agreed to indemnify the Company from and against any and all liabilities, obligations, losses, costs and expenses (including reasonable attorneys fees) arising out of or

in any way related to the Claim. On April 14, 1992, litigation (the "Litigation") was commenced by the Trustee against the Company and all the Indemnitors except Diane Fontenot-Brown and J. Scott Mattei (the "Defendants") seeking unspecified damages and other relief against the Defendants as a result of the Claim. On April 30, 1992, the Trustee and the Defendants entered into a final settlement of the Claim which resulted in a dismissal with prejudice of the Litigation against the Defendants on May 7, 1992 at no liability, cost or expense to the Company.

The Company is not a party to any other material litigation and is not aware of any other threatened litigation that would have a material adverse effect on its business.

ITEM 2. CHANGES IN SECURITIES

At the Company's Annual Meeting of Stockholders held on April 29, 1992, the stockholders approved an amendment to the Restated Certificate of Incorporation of the Company which increased the number of authorized shares of Common Stock of the Company from 15,000,000 to 40,000,000. On that date, the Company filed a Restated Certificate of Incorporation with the Secretary of State of the State of Delaware completing such amendment, a copy of which has been filed with this Report as Exhibit 3.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Inapplicable.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

At the Company's Annual Meeting of Stockholders held on April 29, 1992, the stockholders approved an amendment to the Restated Certificate of Incorporation as described in Item 2 of this Report. The number of affirmative votes and the number of negative votes cast with respect to such amendment was 10,543,711 and 117,567, respectively.

ITEM 5. OTHER INFORMATION

Inapplicable.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

3 Restated Certificate of Incorporation of the Company filed as Exhibit 3.1 to the Company's Registration Statement on Form S-1 (File No. 33-47557) and incorporated herein by reference.

28 Consolidated Balance Sheets of the Company and subsidiaries as of March 31, 1992 (unaudited) and December 31, 1991, unaudited Consolidated Statements of Operations of the Company and subsidiaries for the three month periods ended March 31, 1992 and 1991, unaudited Consolidated Statements of Cash Flows of the Company and subsidiaries for the three months ended March 31, 1992 and 1991 and the accompanying notes thereto.

(b) Reports on Form 8-K:

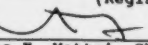
The Company filed a Form 8-K with the Commission on February 3, 1992 reporting under Item 5 the Stock Split described in Item 2 of Part I of this Report.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

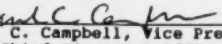
Checkers Drive-In Restaurants, Inc.
(Registrant)

Date: May 11, 1992



James E. Mattei, Chief Executive Officer and President

Date: May 11, 1992



Paul C. Campbell, Vice President and Chief Financial Officer (Principal Financial Officer)

1991 FORM 10-Q
CHECKERS DRIVE-IN RESTAURANTS, INC.
EXHIBIT INDEX

Exhibit Number	Exhibit Description	Pagination by sequential numbering system
3	Restated Certificate of Incorporation of the Company filed as Exhibit 3.1 to the Company's Registration Statement on Form S-1 (File No. 33-47557) and incorporated herein by reference.	—
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CHECKERS DRIVE-IN RESTAURANTS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31, 1991	March 31, 1992 (Unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	$13,120,036	$ 7,875,035
Investments, at cost	2,839,671	3,813,820
Royalties receivable	127,679	196,876
Other franchisee receivables	131,387	57,656
Other receivables	947,276	859,868
Inventory	182,316	222,411
Costs and earnings in excess of billings on uncompleted contracts	377,087	89,105
Prepaid expenses and other	7,973	444,309
Pre-opening costs, net of accumulated amortization of $59,515 at December 31, 1991 and $121,154 at March 31, 1992	155,848	167,764
Total current assets	17,889,273	13,726,844
Property and equipment, at cost, net of accumulated depreciation and amortization	18,905,654	24,395,952
Long-term investments, at cost	6,235,348	4,879,671
Deposits and other noncurrent assets	462,856	369,833
	$43,493,131	$43,372,300
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current installments of long-term debt	738,887	119,707
Accounts payable	4,951,373	4,128,192
Accrued wages	556,435	479,595
Other accrued expenses	656,516	640,988
Income taxes payable	838,765	649,680
Deferred franchise fee income, net of deferred costs	278,195	343,195
Total current liabilities	8,020,171	6,361,357
Long-term debt, less current installments	1,768,408	491,611
Deferred franchise fee income	352,500	295,000
Deferred income taxes	987,000	1,417,000
Minority interests in joint ventures	419,826	879,165
Total liabilities	11,547,905	9,444,133
Stockholders' equity:		
Preferred stock, $.001 par value. Authorized 2,000,000 shares, no shares outstanding		
Common stock, $.001 par value. Authorized 40,000,000 shares, issued and outstanding 13,582,455 at December 31, 1991 and March 31, 1992	13,776	13,776
Additional paid-in capital	29,129,475	29,129,475
Retained earnings	3,201,975	5,184,916
	32,345,226	34,328,167
Less treasury stock, at cost	400,000	400,000
Total stockholders' equity	31,945,226	33,928,167
	$43,493,131	$43,372,300

See accompanying notes to consolidated financial statements.

CHECKERS DRIVE-IN RESTAURANTS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	Three months ended March 31,	
	1991 (Unaudited)	1992 (Unaudited)
Revenues:		
Restaurant sales	$ 5,698,965	$12,407,034
Royalties	303,395	795,146
Franchise fees	225,000	345,000
Modular restaurant packages	1,382,754	2,982,118
Total revenues	7,610,114	16,529,298
Costs and expenses:		
Costs of restaurant sales	4,411,437	9,165,263
Costs of modular restaurant package revenues	1,193,084	2,421,787
Depreciation and amortization	183,788	421,825
Selling, general and administrative expenses	876,317	1,548,479
Total costs and expenses	6,664,626	13,557,354
Operating income	945,488	2,971,944
Interest expense (income), net	155,623	(209,278)
Earnings before minority interests and income taxes	789,865	3,181,222
Minority interests in earnings	57,287	104,281
Earnings before income taxes	732,578	3,076,941
Income tax expense	245,000	1,094,000
Net earnings	$ 487,578	$ 1,982,941
Pro forma earnings data:		
Net earnings as reported	487,578	1,982,941
Pro forma adjustment to provision for income taxes	33,000	—
Pro forma net earnings	$ 454,578	$ 1,982,941
Pro forma net earnings per common share	$ .04	$ .15
Weighted average number of common shares outstanding	10,917,968	13,582,455

See accompanying notes to consolidated financial statements.

CHECKERS DRIVE-IN RESTAURANTS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended March 31,	
	1991 (Unaudited)	1992 (Unaudited)
Cash flows from operating activities:		
Net earnings	$ 487,578	$ 1,982,941
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	277,525	421,825
Minority interests in earnings	57,287	104,281
Change in assets and liabilities:		
(Increase) decrease in receivables	(121,443)	91,942
Increase in inventory	(11,070)	(40,095)
(Increase) decrease in prepaid expenses and other	50,926	(436,336)
(Increase) decrease in pre-opening costs	33,157	(100,865)
(Increase) decrease in deposits and other	(44,949)	93,023
Decrease in accounts payable	(73,397)	(823,181)
Decrease in accrued expenses	(272,010)	(92,368)
Increase in costs and earnings in excess of billings on uncompleted contracts	112,229	287,982
Decrease in income taxes payable	(13,126)	(189,085)
(Increase) decrease in deferred franchise fee income, net	(100,648)	7,500
Increase in deferred income taxes	113,906	430,000
Net cash provided by operating activities	495,965	1,737,564
Cash flows from investing activities:		
Proceeds from maturities of investments	—	804,897
Purchase of investments	—	(423,369)
Capital expenditures	(463,302)	(5,823,174)
Net cash used in investing activities	(463,302)	(5,441,646)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	—	353,801
Repayments on notes payable to bank	(25,220)	—
Principal payments on long-term debt	(70,246)	(2,249,778)
Principal payments on stockholder notes	(160,560)	—
Proceeds from investment by minority interests	—	468,370
Distributions to minority interests	(48,595)	(113,312)
Net cash used in financing activities	(304,621)	(1,540,919)
Net decrease in cash	(271,958)	(5,245,001)
Cash at beginning of period	562,886	13,120,036
Cash at end of period	$ 290,928	$ 7,875,035
Supplemental disclosures of cash flow information—		
Interest paid	$ 192,679	$ 34,321
Income taxes paid	$ 144,210	$ 853,545

See accompanying notes to consolidated financial statements.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals) necessary to present fairly the information set forth therein have been included. The operating results for the three months ended March 31, 1992 are not necessarily an indication of the results that may be expected for the year ended December 31, 1992. Except as disclosed herein, there has been no material change in the information disclosed in the notes to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 1991. Therefore, it is suggested that the accompanying financial statements be read in conjunction with the Company's December 31, 1991 consolidated financial statements.

(b) Purpose of Organization

The principal business of the Company is the operation and franchising of Checkers restaurants (the "Restaurants"). At March 31, 1992, there were 138 Restaurants operating in eleven different states. Of those Restaurants, 54 were Company-operated (including five 50%-owned and one 75%-owned joint ventures) and 84 were operated by franchisees. The accounts of the joint ventures have been included with those of the Company in these consolidated financial statements.

The consolidated financial statements also include the accounts of Champion, Champion manufactures modular restaurant packages for the Company and franchisees. In November 1991, Champion was merged with a wholly-owed subsidiary of the Company, whereby the Champion stockholders exchanged all of their shares of common stock for 1,462,497 shares of the common stock of the Company. The exchange ratio was determined through negotiations between the Company and representatives of the Champion stockholders. The merger is a combination of entities under common control and is accounted for by combining the historical amounts of the companies (similar to a pooling of interests). These consolidated financial statements reflect the retroactive combination of the Company and Champion. Champion began operations on May 7, 1990.

Intercompany balances and transactions have been eliminated in consolidation and minority interests have been established for the outside partner's interests.

(c) Revenue Recognition

The Company recognizes franchise fees as an income when substantially all of its obligations are satisfied (at the opening of a Restaurant).

Franchise fees are generated from the sale of rights to develop, own and operate Restaurants. Such fees are based on the number of potential Restaurants in a specific area which the franchisee agrees to develop pursuant to the terms of the franchise agreement between the Company and the franchisee and are recognized as

income on a pro rata basis when substantially all of the Company's obligations per location are satisfied. Franchise fees are nonrefundable.

Franchise fees received prior to the substantial completion of the Company's obligations are deferred.

The Company receives royalty fees from franchises based on a percentage of each restaurant's gross revenues. Royalty fees are recognized as earned.

Champion recognizes revenues on the percentage-of-completion method, measured by the percentage of costs incurred to the estimated total costs of the contract.

(d) Cash, Cash Equivalents and Investments

The Company considers all highly liquid instruments purchased with an original maturity of less than three months to be cash equivalents; investments maturing within twelve months are considered to be short-term investments. Investments are carried at cost, which approximates market.

(e) Receivables

Receivables consist primarily of franchise fees and royalties due from franchisees, and receivables from the sale of Modular Restaurant Packages. The allowance for doubtful receivables was $160,000 at December 31, 1991 and $90,000 at March 31, 1992.

(f) Inventory

Inventories are stated at the lower of cost (first-in, first-out (FIFO) method) or market.

(g) Pre-Opening Costs

Certain costs related to hiring, training and other costs of opening new Restaurants are capitalized and amortized over twelve months.

(h) Property and Equipment

Property and equipment are stated at cost. Property and equipment under capital leases are stated at their fair value at the inception of the lease. Depreciation and amortization are computed on the straight-line method over the estimated useful lives of the assets.

(i) Income Taxes

Deferred income taxes are recognized for income and expense items that are reported for financial purposes in different years than for income tax purposes.

(j) Stock Split

The Company declared a three for two stock split payable in the form of a stock dividend effective February 20, 1992. All share and per share information in these financial statements have been retroactively restated to reflect the split.

(2) INCOME TAX

Prior to its acquisition by the Company in November 1991, Champion was taxed as an S Corporation under Subchapter S of the Internal Revenue Code. The pro forma income tax adjustments included in the consolidated statements of operations

for the three months ended March 31, 1991 represent federal and state income tax expense that would have been required had Champion been a C Corporation. Champion's S Corporation election was terminated at the time of its acquisition by the Company.

(3) STOCK OPTION PLAN

In August 1991, the Company adopted a stock option plan whereby incentive stock options, nonqualified stock options, stock appreciation rights and restricted shares can be granted to eligible salaried individuals. The Company reserved 450,000 shares for issuance under the plan. At March 31, 1992, the Company had granted nonqualified options to purchase 193,650 common shares at $10.67 per share. In the three months ended March 31, 1992, options for 3,000 shares were cancelled. Of the outstanding options, 168,000 vest at the end of five years, 21,900 vest at the end of three years, and 750 vest immediately. These options expire no later than 10 years from the date of grant.